

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 IO-10 ISO-00 EURE-00 SSO-00 NSCE-00

USIE-00 INRE-00 CIAE-00 DODE-00 PM-03 H-01 INR-07

L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 AID-05

COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03 CIEP-01

LAB-04 SIL-01 OMB-01 AGR-05 STR-01 /099 W

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O R 211851Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8546

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

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DEPARTMENT PASS TREASURY AND EXPORT IMPORT BANK

E.O. 11652:N/A

TAGS: EFIN, ETRD, UK

SUBJECT: UK EXPORT SUBSIDY PROPOSED IN FORM OF INFLATION
INSURANCE

BEGIN UNCLASSIFIED/BEGIN SUMMARY: PETER SHORE, UK MIN-
ISTER FOR TRADE, ANNOUNCED IN COMMONS FEBRUARY 20, GOVERN-
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MENT PLANS TO AMEND THE EXPORT GUARANTEES (AMENDMENT)

BILL TO PROVIDE PARTIAL INSURANCE AGAINST COST INFLATION TO EXPORTERS OF CAPITAL GOODS. UNDER THE PROPOSED AMENDMENT, THE EXPORT CREDITS GUARANTEE DEPARTMENT (ECGD) WILL OFFER INSURANCE WHEREBY EXPORTERS WILL BE ABLE TO RECOVER A PORTION OF ANY RISE IN COST, OVER TEN PERCENT, INCURRED IN FIXED-PRICE CONTRACTS OF MORE THAN 2 MILLION POUNDS, AND INVOLVING A MANUFACTURING PERIOD OF 2 YEARS OR MORE.
END SUMMARY

1. PETER SHORE, UK MINISTER FOR TRADE, ANNOUNCED TO THE HOUSE OF COMMONS ON FEBRUARY 20, THAT THE GOVERNMENT PLANS TO AMEND THE EXPORT GUARANTEES (AMENDMENT) BILL, WHICH IS EXPECTED TO BE INTRODUCED IN ABOUT 2 WEEKS, TO INCLUDE PROVISIONS FOR PARTIAL INSURANCE TO EXPORTERS OF CAPITAL GOODS AGAINST INFLATIONARY COST INCREASES. THE PROVISION WAS REPORTEDLY INTRODUCED AFTER STRONG PRESSURES FROM MANUFACTURERS WHO CLAIM THAT WITHOUT SUCH AID, THEY WOULD BE UNABLE TO SECURE A REASONABLE SHARE OF EXPORT BUSINESS TO THE MIDDLE EAST. MANUFACTURERS NOTED THAT SIMILAR ASSISTANCE HAS, FOR SOME TIME, BEEN AVAILABLE TO MANY OF THEIR COMPETITORS, IN PARTICULAR, THE FRENCH.

2. THE UK SCHEME, AS TENTATIVELY OUTLINED, WOULD TAKE THE FORM OF INSURANCE THROUGH THE ECGD. AGAINST A PREMIUM, PROVISIONALLY SET AT 1 PERCENT OF CONTRACT VALUE, ECGD WOULD INSURE THAT EXPORTERS WOULD BE ABLE TO RECOVER 85 PERCENT OF ANY INCREASE IN FIXED-PRICE CONTRACT COSTS ABOVE 10 PERCENT. THAT IS, THE MANUFACTURER WOULD ABSORB ANY COST INFLATION UP TO 10 PERCENT OF THE CONTRACTED SELLING PRICE AND WOULD RECOVER, THROUGH GOVERNMENT SUBSIDIES, 85 PERCENT OF ANY ADDITIONAL COST INCREASES UP TO A MAXIMUM OF 20 PERCENT. FOR CASH CONTRACTS, THE SUBSIDY WOULD BE 90 PERCENT OF COST INCREASES BETWEEN 10 AND 25 PERCENT.

3. THE ECGD INSURANCE WOULD BE AVAILABLE TO ALL EXPORTERS OF CAPITAL GOODS WHERE THE CONTRACT VALUE IS IN EXCESS OF 2 MILLION POUNDS AND INVOLVES A MANUFACTURING PERIOD OF 2 YEARS OR MORE. THE INSURANCE WOULD NOT BE AVAILABLE FOR INTRA-EEC EXPORTS.
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4. BEGIN LIMITED OFFICIAL USE: IN DISCUSSIONS WITH ECGD AND DEPT OF TRADE OFFICIALS, OBVIOUS EMBARRASSMENT WAS EXPRESSED WHEN THE ABOVE ISSUE WAS RAISED. ECGD OFFICIAL STATED THAT THE DECISION TO PROPOSE THE EXPORT INSURANCE SCHEME HAD ONLY BEEN REACHED EARLIER IN THE WEEK. HE STRESSED THAT THE MAIN REASON FOR INTRODUCTION OF THE SCHEME AT THIS TIME WAS THE CULMINATION OF LONG TERM

EFFORTS TO PERSUADE THE FRENCH TO WIND UP THEIR OWN
SIMILAR OPERATION. FAILING TO ACHIEVE THIS, THEY FELT
THAT THE BRITISH HAD NO ALTERNATIVE BUT TO ADOPT A SIMILAR
SCHEME IN ORDER TO MAINTAIN THEIR EXPORT COMPETITIVE
POSITION.

THE TECHNICAL DETAILS OF THE SCHEME HAVE NOT YET BEEN
FORMALIZED AND THE PROPOSED AMENDMENT WILL BE ADDED TO
THE EXPORT GUARANTEES BILL IN VERY GENERAL FORM. WHILE
THE ABOVE OUTLINE OF THE SCHEME STATES THAT THE SCHEME
WOULD INSURE AGAINST COST INCREASES IN THE 10-20 PERCENT
RANGE, OFFICIALS STATED THAT THE 20 PERCENT UPPER LIMIT
WAS NOT NECESSARILY THE MAXIMUM THAT WOULD BE COVERED WHEN
THE FINAL SCHEME WAS PUT INTO OPERATION. AGAIN, THIS IS
ONE AREA WHICH WILL PROBABLY NOT BE SPECIFIED IN THE LEGIS-
LATION BUT WILL BE ADMINISTRATIVELY DETER-

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PASS TREASURY

MINED. LEVEL WILL REMAIN UNCLEAR UNTIL FINAL DETAILS HAVE BEEN WORKED OUT WITHIN THE GOVERNMENT AGENCIES RESPONSIBLE ECGD OFFICIAL ACCEPTED THE FACT THAT SUCH A SCHEME WILL MOST LIKELY CAUSE A GREAT DEAL OF CONTROVERSY BETWEEN THE GOVERNMENT AND BRITISH COMPANIES INVOLVED. HE FEARED THAT PROBLEMS WOULD ARISE WHEN COMPANIES APPROACHED THE GOVERNMENT TO SEEK PAYMENT FOR COST INCREASES, INCURRED LIMITED OFFICIAL USE

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AND IT WOULD BE DIFFICULT TO ASCERTAIN WHICH COST INCREASES RESULTED FROM INFLATIONARY RISES IN PRODUCTION FACTOR COST AND THOSE ARISING FROM OTHER CAUSES SUCH AS INEFFICIENT MEANS OF PRODUCTION. HE ALSO STATED THAT HMT HAD EXPRESSED A GREAT DEAL OF CONCERN OVER THE ACTUAL AMOUNT OF GOVERNMENTAL OUTLAYS REQUIRED BY SUCH A SCHEME, AND STRESSED THAT TREASURY WOULD BE FAIRLY CLOSELY INVOLVED IN THE FORMULATION OF MECHANISMS FOR COMPUTING GOVERNMENTAL PAYMENTS.

THROUGHOUT THE DISCUSSIONS OFFICIALS CONTINUALLY STRESSED THE COMPETITION ARISING FROM THE ALREADY EXISTING FRENCH SCHEME, AND STRONGLY IMPLIED THAT IF THE FRENCH WOULD DROP THEIR EXPORT SUBSIDIES THEN THE UK SCHEME MIGHT ALSO BE DROPPED. OFFICIALS INDICATED HOPE THAT THE BRITISH SCHEME WOULD BE IN OPERATION BY MID-JUNE AND WOULD CONTINUE, AS CURRENTLY PROPOSED, FOR A PERIOD OF 2 YEARS AT WHICH TIME EXTENSION WOULD REQUIRE PARLIAMENTARY APPROVAL. END LIMITED OFFICIAL USE

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Message Attributes

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Disposition Approved on Date:
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